

Harper Creek Community Schools



Battle Creek, Michigan

FINANCIAL STATEMENTS

For the Year Ended June 30, 2008



REHMANN ROBSON

Certified Public Accountants

HARPER CREEK COMMUNITY SCHOOLS

For the Year Ended June 30, 2008

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HARPER CREEK COMMUNITY SCHOOLS

For the Year Ended June 30, 2008

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REHMANN ROBSON

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INDEPENDENT AUDITORS' REPORT

October 30, 2008

Board of Education
Harper Creek Community Schools
Battle Creek, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **HARPER CREEK COMMUNITY SCHOOLS**, as of and for the year ended June 30, 2008, which collectively comprise Harper Creek Community Schools' basic financial statements, as listed in the table of contents. These financial statements are the responsibility of **Harper Creek Community Schools'** management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of **Harper Creek Community Schools** as of June 30, 2008, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2008, on our consideration of Harper Creek Community School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise **Harper Creek Community Schools'** basic financial statements. The combining financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of **Harper Creek Community Schools**. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of **Harper Creek Community Schools**. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

Management's Discussion and Analysis

Harper Creek Community Schools Management's Discussion & Analysis

As management of Harper Creek Community Schools, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year that ended June 30, 2008.

Financial Highlights

The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$7,562,367 (net assets). Of this amount, \$643,906 (unrestricted net assets) may be used to meet the government's ongoing obligations for district programs.

The government's total net assets decreased by \$ 1,502,699

As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balance of \$2,428,113, a decrease of \$641,487 in comparison with the prior year. Approximately 86% or \$2,079,973 is available for spending at the government's discretion (Unreserved fund balance –general fund).

At the end of the current fiscal year, unreserved fund balance for the general fund was \$2,079,973 or 10% of total general fund expenditures, which was down from 13% for the fiscal year ending 06/30/2007.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components:

1. Government-Wide Financial Statements
2. Fund Financial Statements
3. Notes to the Financial Statements

This report also contains other supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to the private business sector.

The statement of net assets presents information on all of the District's assets and liabilities, with difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported, as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave.)

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their cost through user fees and charges (business-type activities). The governmental activities of the district include instruction, support services, food services, athletics, and community service. The District has no business-type activities as of and for the year ending June 30, 2008.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Like other state and local governments, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because of the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. Readers may get a better understanding of the long-term impact of the government's near-term financing decision by doing it this way. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains nine individual governmental funds, of which five are tied to the district's debt issues. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund. Data from the eight other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The District adopts an annual appropriated budget for its General and Special Revenue funds. Budgetary comparison statements have been provided herein to demonstrate compliance with those budgets. Budgets are not required for the debt issues.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

The combining statements, referred to earlier, in connection with non-major governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found following the Notes to the Financial Statements section of the report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$7,562,367 at the close of the most recent fiscal year.

A portion of the District's net assets (87%) reflects its investment in capital assets (e.g. land, buildings, vehicles, and equipment); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its student population; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

District's Net Assets

	Governmental Activities <u>2006-2007</u>	Governmental Activities <u>2007-2008</u>
Current and Other Assets	\$ 6,151,881	\$ 4,991,546
Capital Assets, Net	\$60,725,376	\$59,927,456
Total Assets	\$66,877,257	\$64,919,002
Current Liabilities Outstanding	\$ 4,344,933	\$ 4,434,091
Other Liabilities	\$53,467,258	\$52,922,544
Total Liabilities	\$57,812,191	\$57,356,635
Net Assets:		
Invested in Capital Assets	\$ 7,382,297	\$6,616,883
Restricted	\$ 224,521	301,578
Unrestricted	\$ 1,458,248	643,906
Total Net Assets	<u>\$ 9,065,066</u>	<u>\$ 7,562,367</u>

An additional portion of the District's net assets (4%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (9%) or \$643,906 may be used to meet the government's ongoing obligations to its programs.

At the end of the current fiscal year, the District was able to report positive balances in all categories of net assets.

The government's net assets showed a decrease of \$1,502,699 during the current fiscal year. Included in the current fiscal year was nominal increase in the foundation allowance funding by the State of Michigan.

District Changes in Net Assets

		Governmental Activities	
Revenue		<u>2006-2007</u>	<u>2007-2008</u>
General and Program Revenue:			
Property Taxes		\$ 5,249,444	\$ 5,436,013
State School Aid		\$15,424,154	\$15,685,631
Grants/Contributions		\$ 544,996	\$ 272,259
Other		\$ 150,469	\$ 41,109
Total Revenue		\$21,369,063	\$21,435,012
Expenses:			
Instruction		\$13,436,705	\$10,880,040
Support Services		\$ 8,009,211	\$ 7,875,981
Food Service		\$ (1,759)	\$ (11,366)
Athletics		\$ 192,471	\$ 213,325
Community Service		\$ 0	\$ 0
Depreciation-Unallocated		\$ (1,681,996)	\$ 1,415,428
Interest on Long-Term Debt		\$ 2,389,209	\$ 2,564,303
Total Expenses		\$ 22,343,841	\$22,937,711
Increase (Decrease) in Net Assets		\$ (9,74,778)	\$ (1,502,699)
Net Assets, Beginning of Fiscal Year		<u>\$ 10,039,844</u>	<u>\$ 9,065,066</u>
Net Assets, End of Fiscal Year		<u>\$ 9,065,066</u>	<u>\$ 7,562,367</u>

Governmental Activities

Net assets decreased by \$ 1,502,699. Key elements of this decrease are as follows:

Principal payments on long-term debt are expenditures in the fund financial statements, but they are not expenses in the government-wide financial statements, as the latter are presented on a full accrual basis of accounting. Also, depreciation expense is not recorded in the fund financial statements, but it is an expense in the government-wide financial statements. The effect of those transactions, coupled with a foundation allowance increase per student of only \$119 per pupil on a blended membership reduction of .70 FTE over the 2006/2007 student membership count. Retirement, utility and other costs increased significantly resulting in this decrease in net assets.

Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Government Funds: The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$2,428,113 a decrease of \$641,487 in comparison with the prior year. Approximately 86% of this total amount, \$2,079,973 constitutes unreserved, undesignated fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because the underlying assets are included in inventory and prepaid items and is not available for current expenditure, or is designated for special revenue programs and debt service.

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved fund balance of the general fund was \$2,079,973 while total fund balance was \$2126,535. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance and total fund balance each represent approximately 9.8% and 10.0% of total General expenditures.

The fund balance of the District's General Fund decreased by \$718,544 which is equal to 3% of the 2007/2008 total General Fund expenditures. A comparison of the total 2006/2007 and 2007/2008 revenue and expenses categories is as follows:

Revenue	<u>2006/2007</u>	<u>2007/2008</u>	<u>Change</u>	<u>%</u>
Local Sources	\$ 2,837,358	\$ 2,567,503		
State Sources	\$16,450,353	\$16,754,123		
Federal Sources	\$ 500,478	\$ 478,837		
Other Sources	\$ 951,610	\$ 1,028,396		
Total	\$20,739,799	\$20,828,859	\$ 89,060	0.43%
Expenses				
Instruction	\$12,750,318	\$13,310,341		
Support Services	\$ 8,009,511	\$ 7,816,760		
Community Serv	\$ 0	\$ 0		
Transfers	\$ 438,046	\$ 420,302		
Total	\$21,197,875	\$21,547,403	\$349,528	1.65%

Revenue has increased by .43% over 2006/2007 revenue figures and expenses have increased by 1.65% over expense figures in part because of the increases in fringe benefit and utility costs.

General Fund Budgetary Highlights

The change between the original and final amended budget for revenue amounted to increased revenue of \$170,490 or a change of .80%. The change between the original and final amended budget for expenditures was \$678,636 or an increase of 3.3% over the original budget. The addition of all day kindergarten in all three elementary buildings which added three certified staff members, along with the increase cost for utilities and fuel costs lead to the increase in expenses once the budget was adopted in June 2007.

Capital Asset and Debt Administration

Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2008, amounted to \$59,927,456 (net of accumulated depreciation). This investment in capital assets includes land, buildings, vehicles, and equipment. Depreciation expense of \$1,415,428 was recorded for the fiscal year.

District's Capital Assets (Net of Depreciation)

Land	\$ 617,508
Buildings/Construction in Progress	\$ 58,283,916
Vehicles	\$ 279,874
Equipment	<u>\$ 746,158</u>
Total Capital Assets	\$ 59,927,456

Additional information on the District's capital assets can be found in Note III-C.

Long Term Debt

At the end of the current fiscal year, the District had total bonded debt outstanding of \$46,189,766. Additionally, the District has a borrowing of \$7,213,431 through the School Bond Loan program and capital outlay leases on technology hardware of \$58,490. Sick leave payable amounts to \$1,131,869 as of June 30, 2008.

Factors bearing on the District's Future

The following factors were considered in preparing the District's budget for the 2008/2009 fiscal year:

An increase in the per pupil foundation allowance of \$112 along with a reduction of 38.66 pupils in the District's membership count.

For the continuation of all day kindergarten, the District has reduced a full time teacher in the program based on the number of students since the budget was adopted in June.

Additional projected reduction in the District's fund equity, to fund the 2008/2009 fiscal year expenditures.

In order to address the trend in general fund shortfalls in recent years, the Board of Education has formed a budget committee to assess and monitor the 2008-2009 fiscal year budget.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Office of the Superintendent at 7454 B Drive North, Battle Creek, Michigan 49014.

Basic Financial Statements

District-wide Financial Statements

HARPER CREEK COMMUNITY SCHOOLS
Statement of Net Assets
June 30, 2008

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 1,105,729
Investments	5,125
Receivables	3,829,159
Prepaid items and other assets	51,533
Capital assets not being depreciated	617,508
Capital assets being depreciated, net	59,309,948
Total assets	64,919,002
Liabilities	
Accounts payable and accrued liabilities	2,478,054
Unearned revenue	285,025
Long-term liabilities:	
Due within one year	1,671,012
Due in more than one year	52,922,544
Total liabilities	57,356,635
Net assets	
Invested in capital assets, net of related debt	6,616,883
Restricted for:	
Debt service	217,318
Other purposes	84,260
Unrestricted	643,906
Total net assets	\$ 7,562,367

The accompanying notes are an integral part of these financial statements.

HARPER CREEK COMMUNITY SCHOOLS
Statement of Activities
For the Year Ended June 30, 2008

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental activities:					
Instruction	\$ 13,399,680	\$ 23,570	\$ 2,496,070	\$ -	\$ (10,880,040)
Supporting services	7,883,765	-	7,784	-	(7,875,981)
Athletics	376,998	163,673	-	-	(213,325)
Food service	998,681	577,335	432,712	-	11,366
Interest on long-term debt	2,564,304	-	1	-	(2,564,303)
Unallocated depreciation	1,415,428	-	-	-	(1,415,428)
Total	<u>\$ 26,638,856</u>	<u>\$ 764,578</u>	<u>\$ 2,936,567</u>	<u>\$ -</u>	<u>(22,937,711)</u>
General revenues:					
Property taxes					5,436,013
Unrestricted state aid					15,685,631
Grants and contributions not restricted to specific programs					272,259
Unrestricted investment earnings					<u>41,109</u>
Total general revenues					<u>21,435,012</u>
Change in net assets					(1,502,699)
Net assets, beginning of year					<u>9,065,066</u>
Net assets, end of year					<u><u>\$ 7,562,367</u></u>

The accompanying notes are an integral part of these financial statements.

Fund Financial Statements

HARPER CREEK COMMUNITY SCHOOLS

Balance Sheet Governmental Funds June 30, 2008

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
<u>ASSETS</u>			
Assets			
Cash and cash equivalents	\$ 869,143	\$ 236,586	\$ 1,105,729
Investments	3,667	1,458	5,125
Receivables	3,626,521	202,638	3,829,159
Due from other funds	44,516	71,442	115,958
Inventory	46,562	4,971	51,533
	<hr/>	<hr/>	<hr/>
<u>TOTAL ASSETS</u>	<u>\$ 4,590,409</u>	<u>\$ 517,095</u>	<u>\$ 5,107,504</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
Liabilities			
Accounts payable and accrued liabilities	\$ 433,716	\$ 19,887	\$ 453,603
Salaries and withholdings payable	1,673,691	-	1,673,691
Due to other funds	71,442	44,516	115,958
Deferred revenue	285,025	151,114	436,139
	<hr/>	<hr/>	<hr/>
Total liabilities	2,463,874	215,517	2,679,391
	<hr/>	<hr/>	<hr/>
Fund balances			
Reserved for:			
Inventory	46,562	4,971	51,533
Unreserved, undesignated	2,079,973	-	2,079,973
Unreserved, undesignated, reported in nonmajor:			
Special revenue funds	-	79,289	79,289
Debt service funds	-	217,318	217,318
	<hr/>	<hr/>	<hr/>
Total fund balances	2,126,535	301,578	2,428,113
	<hr/>	<hr/>	<hr/>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$ 4,590,409</u>	<u>\$ 517,095</u>	<u>\$ 5,107,504</u>

The accompanying notes are an integral part of these financial statements.

HARPER CREEK COMMUNITY SCHOOLS
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
June 30, 2008

Fund balances - total governmental funds	\$	2,428,113
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital and other assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets not being depreciated		617,508
Add: capital assets being depreciated		72,281,012
Deduct: accumulated depreciation		(12,971,064)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add: deferred long-term Durant receivable		151,114
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Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct: long-term installment debt payable		(54,879,545)
Deduct: unamortized premium related to bond issuance		(1,088,998)
Add: unamortized portion of deferred bond cost		2,565,346
Deduct: accrued interest on bonds payable		(350,760)
Deduct: capital leases payable		(58,490)
Deduct: compensated absences		(1,131,869)

Net assets of governmental activities	\$	7,562,367
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The accompanying notes are an integral part of these financial statements.

HARPER CREEK COMMUNITY SCHOOLS
Statement of Revenue, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2008

	General	Other Governmental Funds	Totals
Revenue			
Local sources	\$ 3,560,900	\$ 3,946,455	\$ 7,507,355
State sources	16,754,123	56,284	16,810,407
Federal sources	478,836	376,428	855,264
	<hr/>	<hr/>	<hr/>
Total revenue	20,793,859	4,379,167	25,173,026
	<hr/>	<hr/>	<hr/>
Expenditures			
Education:			
Instruction	13,310,341	-	13,310,341
Support services	7,816,760	-	7,816,760
Athletics	-	376,998	376,998
Food services	-	996,816	996,816
Debt service:			
Principal	-	1,529,789	1,529,789
Interest	-	2,186,808	2,186,808
Other	-	14,768	14,768
Capital outlay	-	89,338	89,338
	<hr/>	<hr/>	<hr/>
Total expenditures	21,127,101	5,194,517	26,321,618
	<hr/>	<hr/>	<hr/>
Revenue under expenditures	(333,242)	(815,350)	(1,148,592)
	<hr/>	<hr/>	<hr/>
Other financing sources (uses)			
Issuance of long-term debt	-	507,105	507,105
Transfers in	35,000	420,302	455,302
Transfers out	(420,302)	(35,000)	(455,302)
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	(385,302)	892,407	507,105
	<hr/>	<hr/>	<hr/>
Net change in fund balances	(718,544)	77,057	(641,487)
	<hr/>	<hr/>	<hr/>
Fund balances, beginning of year	2,845,079	224,521	3,069,600
	<hr/>	<hr/>	<hr/>
Fund balances, end of year	<u>\$ 2,126,535</u>	<u>\$ 301,578</u>	<u>\$ 2,428,113</u>

The accompanying notes are an integral part of these financial statements.

HARPER CREEK COMMUNITY SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures
and Change in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2008

Net change in fund balances - total governmental funds	\$	(641,487)
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay		-
Deduct: depreciation expense		(1,415,428)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities		1,529,789
Deduct: proceeds from borrowing from the School Bond Loan Fund		(507,105)
Deduct: accrued interest added to borrowing from the School Bond Loan Fund		(294,376)
Add: amortization of bond premium		68,062
Deduct: amortization of deferred bond costs		(146,356)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Deduct: payments received on long-term Durant Settlement receivable		(36,870)
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add: decrease in accrued interest payable on bonds		9,942
Subtract: increase in the accrual for compensated absences		(68,870)

Change in net assets of governmental activities	\$	(1,502,699)
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The accompanying notes are an integral part of these financial statements.

HARPER CREEK COMMUNITY SCHOOLS
Statement of Revenue, Expenditures and Changes in Fund Balance
General Fund - Budget and Actual
For the Year Ended June 30, 2008

Revenue	Budget		Actual	Over (Under) Final Budget
	Original	Final		
Local sources				
Current tax levy	\$ 2,235,009	\$ 2,289,664	\$ 2,289,664	\$ -
Interest on delinquent taxes	-	19,146	19,146	-
Tuition and transportation fees	-	23,569	23,570	1
Interest on investments	35,000	383	397	14
Other local revenue	1,134,500	1,173,819	1,228,123	54,304
Total local sources	3,404,509	3,506,581	3,560,900	54,319
State sources				
Grants - unrestricted state aid	15,856,326	15,682,975	15,685,631	2,656
Grants - restricted:				
At Risk	397,443	189,830	190,395	565
Durant	36,870	36,870	36,870	-
Special education	354,250	667,614	667,614	-
Other	62,700	173,613	173,613	-
Total state sources	16,707,589	16,750,902	16,754,123	3,221
Federal sources				
Title I	335,000	353,785	353,284	(501)
Title II	108,000	111,458	114,906	3,448
Title V LEA	-	522	522	-
Homeland Security	-	-	7,784	7,784
Other	-	2,340	2,340	-
Total federal sources	443,000	468,105	478,836	10,731
Total revenue and other sources	20,555,098	20,725,588	20,793,859	68,271

continued...

HARPER CREEK COMMUNITY SCHOOLS
Statement of Revenue, Expenditures and Changes in Fund Balance
General Fund - Budget and Actual (Continued)
For the Year Ended June 30, 2008

Expenditures	Budget		Actual	Over (Under) Final Budget
	Original	Final		
Instruction				
Basic program:				
Elementary	\$ 3,881,383	\$ 3,904,487	\$ 3,906,613	\$ 2,126
Junior High School	3,035,834	3,250,575	3,249,569	(1,006)
High School	3,151,293	3,192,803	3,200,823	8,020
Ready Start	96,585	106,616	106,621	5
Added needs:				
At Risk	260,804	189,049	190,392	1,343
Special education	1,815,464	1,786,396	1,787,258	862
Title I	392,322	467,590	464,318	(3,272)
Vocational education	293,136	403,253	404,747	1,494
Total instruction	12,926,821	13,300,769	13,310,341	9,572
Supporting services				
Pupil:				
Guidance	596,885	598,480	601,871	3,391
Other	12,000	11,101	7,976	(3,125)
Instructional staff:				
Staff development	70,000	263,809	264,232	423
Library	181,298	180,530	180,446	(84)
Administration:				
Board of Education	136,564	157,260	158,175	915
Central administration	746,262	661,195	660,576	(619)
School administration	1,428,050	1,414,505	1,421,446	6,941
Business:				
Fiscal services	273,891	269,307	269,322	15
Other business services	143,062	170,304	164,619	(5,685)
Operations and maintenance	2,729,454	2,757,210	2,761,476	4,266
Transportation	897,442	917,515	904,853	(12,662)
Other services	307,337	425,717	421,768	(3,949)
Total supporting services	7,522,245	7,826,933	7,816,760	(10,173)

continued...

HARPER CREEK COMMUNITY SCHOOLS
Statement of Revenue, Expenditures and Changes in Fund Balance
General Fund - Budget and Actual (Concluded)
For the Year Ended June 30, 2008

	<u>Budget</u>		<u>Actual</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures (concluded)				
Total expenditures	<u>20,449,066</u>	<u>21,127,702</u>	<u>21,127,101</u>	<u>(601)</u>
Revenues over (under) expenditures	<u>106,032</u>	<u>(402,114)</u>	<u>(333,242)</u>	<u>68,872</u>
Other financing sources (uses)				
Transfers in	35,000	35,000	35,000	-
Transfers out	<u>(420,302)</u>	<u>(420,302)</u>	<u>(420,302)</u>	<u>-</u>
Total other financing sources (uses)	<u>(385,302)</u>	<u>(385,302)</u>	<u>(385,302)</u>	<u>-</u>
Net change in fund balance	(279,270)	(787,416)	(718,544)	68,872
Fund balance, beginning of year	<u>2,845,079</u>	<u>2,845,079</u>	<u>2,845,079</u>	<u>-</u>
Fund balance, end of year	<u>\$ 2,565,809</u>	<u>\$ 2,057,663</u>	<u>\$ 2,126,535</u>	<u>\$ 68,872</u>

The accompanying notes are an integral part of these financial statements.

HARPER CREEK COMMUNITY SCHOOLS
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2008

Assets

Cash and cash equivalents

\$ 332,890

Liabilities

Due to student groups

\$ 332,890

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

HARPER CREEK COMMUNITY SCHOOLS

Notes to the Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

Harper Creek Community Schools (the “District”) has followed the guidelines of the Governmental Accounting Standards Board’s Statement No. 14 and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

B. District-wide and fund financial statements

The District-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year ended 2008.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the District-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The District-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

HARPER CREEK COMMUNITY SCHOOLS

Notes to the Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, intergovernmental revenues, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental fund:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Additionally, the District reports the following fund types:

Special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes, where there is a need to determine the results of operations.

The *Debt Service funds* are used to account for the accumulation of resources for, and the payment of, long-term principal, interest, and related costs.

The *Capital Projects Fund* accounts for financial resources to be used for the acquisition or construction of major capital facilities, major remodeling and improvements

The *Agency fund* accounts for assets held for other groups and organizations and is custodial in nature.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the District-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

HARPER CREEK COMMUNITY SCHOOLS

Notes to the Financial Statements

D. Assets, liabilities and fund balance

1. *Deposits and investments*

Harper Creek Community Schools' cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are reported at fair value based on quoted market prices.

2. *Receivables and payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds" (i.e., the current portion of interfund loans).

3. *Inventory*

Inventory is valued at the lower of cost (first-in, first-out) or market. Inventory in the General Fund and Special Revenue Funds consists of expendable supplies held for consumption. The cost is recorded as an expenditure when consumed rather than when purchased. Reported inventories are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

4. *Capital assets*

Capital assets, which include property and equipment, are reported in the governmental activities column in the District-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 or computer equipment with an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

HARPER CREEK COMMUNITY SCHOOLS

Notes to the Financial Statements

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Vehicles	5-10
Equipment	5-20

5. *Compensated absences*

The District has recorded accumulated terminal leave payable in accordance with generally accepted accounting principles for employees that have become or are expected to become vested after twenty years of service. The liability is equal to accrued sick days of such employees, but is capped at 100 days. Eligible teachers have their sick pay benefits computed at one-half of the teacher's current daily rate at the time of retirement. Employees cannot become eligible for payments until they have achieved twenty years of service within the District. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

6. *Long-term obligations*

In the District-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities on the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received in debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual proceeds received, are reported as debt service expenditures.

7. *Fund balance*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

HARPER CREEK COMMUNITY SCHOOLS

Notes to the Financial Statements

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The General and Special Revenue funds are under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. The budgets for the General and Special Revenue Funds are adopted on a functional basis.

B. Excess of expenditures over appropriations

Budget to actual comparisons for the General Fund are presented in the fund financial statements at the legal level of budgetary control. Variances in the legal level of control are disclosed in the General Fund Statement of Revenue, Expenditures and Changes in Fund Balance – Budget and Actual.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Assets and Liabilities follows:

Statement of Net Assets:

Cash and cash equivalents	\$ 1,105,729
Investments	<u>5,125</u>
	1,110,854

Statement of Fiduciary Assets and Liabilities:

Agency Funds:	
Cash and cash equivalents	<u>332,890</u>
	<u>\$ 1,443,744</u>

HARPER CREEK COMMUNITY SCHOOLS

Notes to the Financial Statements

These balances are disclosed in the notes as follows:

Bank deposits (checking and savings accounts)	\$ 1,438,619
Investments	<u>5,125</u>
	<u>\$ 1,443,744</u>

Statutory Authority

State statutes authorize the District to invest in:

- (a) Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- (b) Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- (e) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- (f) Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

Harper Creek Community Schools' investment policy allows for all of these types of investments.

Investments

The District chooses to disclose its investments by specifically identifying each. As of year - end, the District had the following investments.

<u>Deposit/Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Michigan Liquid Asset Fund	n/a	<u>\$ 5,125</u>	S&P – AAAm

HARPER CREEK COMMUNITY SCHOOLS

Notes to the Financial Statements

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified above. District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. Harper Creek Community Schools' investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year-end.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, Harper Creek Community Schools' deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year-end, \$1,596,559 of Harper Creek Community Schools' bank balance of \$1,696,559 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the District does not have a policy for investment custodial credit risk. The investments listed above are not subject to custodial credit risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. Harper Creek Community Schools' investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year-end are reported above.

HARPER CREEK COMMUNITY SCHOOLS

Notes to the Financial Statements

B. Receivables

Receivables as of year-end for Harper Creek Community Schools' individual major funds and nonmajor funds in the aggregate, are as follows:

	<u>General</u>	<u>Nonmajor Funds</u>	<u>Total</u>	<u>Amount not expected to be collected within one year</u>
Receivables:				
Intergovernmental	\$ 3,626,521	\$ 51,524	\$ 3,678,045	\$ -
Durant settlement	<u>-</u>	<u>151,114</u>	<u>151,114</u>	<u>114,244</u>
Total Receivables	<u>\$ 3,626,521</u>	<u>\$ 202,638</u>	<u>\$ 3,829,159</u>	<u>\$ 114,244</u>

HARPER CREEK COMMUNITY SCHOOLS

Notes to the Financial Statements

C. Capital assets

Capital assets activity for the year ended June 30, 2008, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 617,508	\$ -	\$ -	\$ 617,508
Total capital assets not being depreciated	<u>617,508</u>	<u>-</u>	<u>-</u>	<u>617,508</u>
Capital assets being depreciated				
Buildings and improvements	68,689,230	-	-	68,689,230
Vehicles	1,757,618	-	-	1,757,618
Furniture and Equipment	<u>1,834,164</u>	<u>-</u>	<u>-</u>	<u>1,834,164</u>
Total capital assets being depreciated	<u>72,281,012</u>	<u>-</u>	<u>-</u>	<u>72,281,012</u>
Less accumulated depreciation for:				
Buildings and improvements	9,185,459	1,219,855	-	10,405,314
Vehicles	1,380,049	97,695	-	1,477,744
Furniture and Equipment	<u>990,128</u>	<u>97,878</u>	<u>-</u>	<u>1,088,006</u>
Total accumulated depreciation	<u>11,555,636</u>	<u>1,415,428</u>	<u>-</u>	<u>12,971,064</u>
Total capital assets being depreciated, net	<u>60,725,376</u>	<u>(1,415,428)</u>	<u>-</u>	<u>59,309,948</u>
Governmental activities capital assets, net	<u><u>\$ 61,342,884</u></u>	<u><u>\$ (1,415,428)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 59,927,456</u></u>

Depreciation expense of \$1,415,428 was charged to the function "Unallocated Depreciation", and not allocated to other functions.

HARPER CREEK COMMUNITY SCHOOLS

Notes to the Financial Statements

D. Payables

Accounts payable and accrued liabilities as of year-end for Harper Creek Community Schools' individual major funds and nonmajor funds in the aggregate, are as follows:

	<u>General</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Fund Financial Statements:			
Accounts payable	\$ 433,716	\$ 19,887	\$ 453,603
Salaries and withholdings payable	1,673,691	-	1,673,691
	<u>\$ 2,107,407</u>	<u>\$ 19,887</u>	2,127,294
District-wide Financial Statements:			
Accrued interest on long-term debt			350,760
			<u>\$ 2,478,054</u>

E. Interfund receivables, payables and transfers

At June 30, 2008, interfund receivables and payables consisted of the following:

	<u>Due from</u>	<u>Due to</u>
General Fund	\$ 44,516	\$ 71,442
Nonmajor governmental funds	71,442	44,516
	<u>\$ 115,958</u>	<u>\$ 115,958</u>

For the year ended June 30, 2008, interfund transfers consisted of the following:

	<u>Transfers out</u>	<u>Transfers in</u>
General Fund	\$ 420,302	\$ 35,000
Nonmajor governmental funds	35,000	420,302
	<u>\$ 455,302</u>	<u>\$ 455,302</u>

HARPER CREEK COMMUNITY SCHOOLS

Notes to the Financial Statements

The District reports interfund balances between many of its funds. The sum of all balances presented in the tables above agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for the governmental funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

F. Long-Term debt

Long-term debt and other obligations of the District at June 30, 2008, are summarized as follows:

	Long-Term Debt Outstanding at July 1, 2007	Additions	Retirement	Long-Term Debt Outstanding at July 1, 2008	Amount Due Within One Year
Bond payable	\$ 49,141,114	\$ -	\$ 1,475,000	\$ 47,666,114	\$ 1,570,519
Bond premium	1,157,060	-	68,062	1,088,998	-
Deferred bond costs	(2,711,702)	-	(146,356)	(2,565,346)	-
Subtotal - installment debt	47,586,472	-	1,396,706	46,189,766	1,570,519
School Bond Loan Fund	6,411,950	801,481	-	7,213,431	-
Capital lease	113,279	-	54,789	58,490	58,490
Comensated absences	1,062,999	89,546	20,676	1,131,869	42,003
Total Long-Term Debt	\$ 55,174,700	\$ 891,027	\$ 1,472,171	\$ 54,593,556	\$ 1,671,012

HARPER CREEK COMMUNITY SCHOOLS

Notes to the Financial Statements

Bonds payable at June 30, 2008, are comprised of the following issues:

General Obligation Bonds :

Non-refunded portion of 2001 School Building and Site Bonds, due in annual installments of \$1,400,000 to \$1,625,000 through the year 2011; interest at 4.10% to 4.45%	\$ 4,650,000
\$25,580,000 2005 Refunding Bonds, due in annual installments of \$75,000 to \$2,125,000 through the year 2024; interest at 3.00% to 5.00%	25,355,000
\$9,800,000 2006 Refunding Bonds, due in annual installments of \$60,000 to \$2,175,000 through the year 2029; interest at 4.00% to 4.25%	9,800,000
\$7,710,000 2007 Refunding Bonds, due in annual installments of \$45,000 to \$2,145,000 through the year 2031; interest at 4.00% to 4.125%	7,710,000
\$366,699 1998 Durant School Improvement Bonds, due in annual installments of \$20,519 to \$59,773 through the year 2013; interest at 4.80%	<u>151,114</u>
	<u>\$ 47,666,114</u>

The capital lease obligation is for computer equipment with annual installments through 2008.

The Durant School Improvement Bond debt is serviced from funds made available to Michigan School districts by an annual appropriation by the Michigan State Legislature. If the Legislature does not appropriate the funding required, the District is not liable to pay the debt service.

Compensated absences payable are generally expected to be liquidated by the General Fund when due.

HARPER CREEK COMMUNITY SCHOOLS

Notes to the Financial Statements

Future principal and interest payment requirements on outstanding debt are as follows:

Year Ended June 30	Principal	Interest	Total
2009	\$ 1,570,519	\$ 2,109,935	\$ 3,680,454
2010	1,684,773	2,057,520	3,742,293
2011	1,722,519	1,972,946	3,695,465
2012	1,858,590	1,896,936	3,755,526
2013	1,929,713	1,822,788	3,752,501
2014-2018	10,525,000	7,626,045	18,151,045
2019-2023	10,945,000	5,210,555	16,155,555
2024-2028	10,970,000	2,682,409	13,652,409
2029-2031	6,460,000	531,810	6,991,810
	\$ 47,666,114	\$ 25,910,944	\$ 73,577,058

Advance Refunding

In prior years, the District defeased certain bonds by placing the proceeds of new bonds in irrevocable trusts for the purpose of generating resources for all future debt service payments on the refunded debt. As a result, the refunded bonds are considered to be defeased and the trust fund assets and related liabilities have been removed from the statement of net assets. At June 30, 2008, the balance of the year 2001 bonds considered to be defeased is \$7,365,000.

The School Bond Loan Fund represents amounts borrowed from the State of Michigan School Bond loan program to supplement property tax revenue for making payments on Harper Creek Community Schools' general obligation bonds. Although interest accrues each year, no payment is due until such time as Harper Creek Community Schools' property tax revenue is sufficient to support the Debt Service requirements on the general obligation bonds. Changes in principal and interest were as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Beginning balance	\$ 5,745,065	\$ 666,885	\$ 6,411,950
Additions	<u>507,105</u>	<u>294,376</u>	<u>801,481</u>
Ending balance	<u>\$ 6,252,170</u>	<u>\$ 961,261</u>	<u>\$ 7,213,431</u>

HARPER CREEK COMMUNITY SCHOOLS

Notes to the Financial Statements

IV. OTHER INFORMATION

A. Risk management

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District has purchased commercial insurance for these risks. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

B. Property taxes

Property taxes are assessed as of December 31, and attach as an enforceable lien on property as of December 1 of the following year. Taxes are levied on December 1 by Emmett, Fredonia, Leroy, Marshall, Newton, and Pennfield Townships and the City of Battle Creek, whose all or portions of boundaries include property within the District, and are due on February 14. Delinquent real taxes are advanced to the District by the Revolving Tax Funds of Calhoun County.

C. Defined benefit pension plan

Plan Description

The Harper Creek Community School District contributes to the Michigan Public School Employees Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits, and death benefits to plan members and beneficiaries. Benefit provisions are established and may be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling 1-800-381-5111.

Funding Policy

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health benefits on a cash disbursement basis.

The current rate is 16.72% of annual covered payroll. The contribution requirements of plan members and the District are established by Michigan State statute and may be amended only by action of the State Legislature. The School District's contributions to MPERS for the years ended June 30, 2008, 2007 and 2006 were \$2,055,537, \$2,075,373 and \$2,025,464, respectively, equal to the required contributions for each year.

HARPER CREEK COMMUNITY SCHOOLS

Notes to the Financial Statements

Other Postemployment Benefits

Retirees have the option of health coverage which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid benefits coverage (no payment if less than 21 years off service).

D. Bonded Construction Costs

The 2001 Capital Projects Fund includes capital project activities funded with bonds issued after May 1, 1994. For the capital projects, the District has complied with the applicable provisions of §1351a of the Michigan Revised School Code, and the applicable sections of the revised Bulletin for School District Audits of Bonded Construction Funds and Sinking Funds in Michigan.

E. Commitments and Contingencies

Under the terms of various Federal and State grants and regulatory requirements, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement of the grantor or regulatory agencies. However, management does not believe such disallowances, if any, would be material to the financial position of the District.

F. Subsequent Event

On May 6, 2008, the District approved a proposal authorizing the issuance of bonds in an aggregate amount not to exceed \$15,000,000. Proceeds of the bonds will be used for the purpose of partially remodeling, refurbishing and re-equipping school district buildings; acquiring and installing educational technology improvements; purchasing school buses; and developing and improving playgrounds, athletic fields and facilities and sites and to pay the costs of issuing the bonds.

* * * * *

Combining Fund Financial Statements

HARPER CREEK COMMUNITY SCHOOLS
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2008

	Special Revenue			2007 Debt Service	2006 Debt Service
	Athletics	Food Service	Future Needs		
<u>ASSETS</u>					
Assets					
Cash and cash equivalents	\$ 7,953	\$ 10,654	\$ -	\$ 20,082	\$ 23,911
Investments	-	-	1,458	-	-
Receivables	-	51,524	-	-	-
Due from other funds	9,000	-	62,442	-	-
Inventory	-	4,971	-	-	-
	<u>-</u>	<u>4,971</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>TOTAL ASSETS</u>	<u>\$ 16,953</u>	<u>\$ 67,149</u>	<u>\$ 63,900</u>	<u>\$ 20,082</u>	<u>\$ 23,911</u>
<u>LIABILITIES AND FUND BALANCES</u>					
Liabilities					
Accounts payable and accrued liabilities	\$ -	\$ 19,887	\$ -	\$ -	\$ -
Due to other funds	1,205	42,650	-	661	-
Deferred revenue	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>1,205</u>	<u>62,537</u>	<u>-</u>	<u>661</u>	<u>-</u>
Fund Balances					
Reserved for inventory	-	4,971	-	-	-
Unreserved, undesignated	15,748	(359)	63,900	19,421	23,911
	<u>15,748</u>	<u>(359)</u>	<u>63,900</u>	<u>19,421</u>	<u>23,911</u>
Total fund balances	<u>15,748</u>	<u>4,612</u>	<u>63,900</u>	<u>19,421</u>	<u>23,911</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$ 16,953</u>	<u>\$ 67,149</u>	<u>\$ 63,900</u>	<u>\$ 20,082</u>	<u>\$ 23,911</u>

Debt Service			
2005 Debt Service	2001 Debt Service	Durant Debt Service	Total
\$ 75,076	\$ 98,910	\$ -	\$ 236,586
-	-	-	1,458
-	-	151,114	202,638
-	-	-	71,442
-	-	-	4,971
<u>\$ 75,076</u>	<u>\$ 98,910</u>	<u>\$ 151,114</u>	<u>\$ 517,095</u>
\$ -	\$ -	\$ -	\$ 19,887
-	-	-	44,516
-	-	151,114	151,114
<u>-</u>	<u>-</u>	<u>151,114</u>	<u>215,517</u>
-	-	-	4,971
75,076	98,910	-	296,607
<u>75,076</u>	<u>98,910</u>	<u>-</u>	<u>301,578</u>
<u>\$ 75,076</u>	<u>\$ 98,910</u>	<u>\$ 151,114</u>	<u>\$ 517,095</u>

HARPER CREEK COMMUNITY SCHOOLS
Combining Statement of Revenue, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2008

	Special Revenue			2007	2006
	Athletics	Food Service	Future Needs	Debt Service	Debt Service
Revenue					
Local sources	\$ 163,673	\$ 577,335	\$ 58	\$ 297,022	\$ 353,331
State sources	-	56,284	-	-	-
Federal sources	-	376,428	-	-	-
Total revenue	163,673	1,010,047	58	297,022	353,331
Expenditures					
Education:					
Salaries	216,638	286,295	-	-	-
Purchased services	58,586	34,829	-	-	-
Supplies and other	42,688	477,867	-	-	-
Employee benefits	59,086	197,825	-	-	-
Debt service:					
Principal	-	-	54,789	-	-
Interest	-	-	-	343,150	403,265
Other	-	-	-	418	801
Capital outlay	-	5,267	84,071	-	-
Total expenditures	376,998	1,002,083	138,860	343,568	404,066
Revenue over (under) expenditures	(213,325)	7,964	(138,802)	(46,546)	(50,735)
Other financing sources (uses)					
Issuance of long-term debt	-	-	-	62,295	52,761
Transfers in	219,000	-	201,302	-	-
Transfers out	-	(35,000)	-	-	-
Total other financing sources (uses)	219,000	(35,000)	201,302	62,295	52,761
Net change in fund balances	5,675	(27,036)	62,500	15,749	2,026
Fund balances, beginning of year	10,073	31,648	1,400	3,672	21,885
Fund balances, end of year	<u>\$ 15,748</u>	<u>\$ 4,612</u>	<u>\$ 63,900</u>	<u>\$ 19,421</u>	<u>\$ 23,911</u>

Debt Service			
2005 Debt Service	2001 Debt Service	Durant Debt Service	Total
\$ 1,097,939	\$ 1,457,097	\$ -	\$ 3,946,455
-	-	-	56,284
-	-	-	376,428
1,097,939	1,457,097	-	4,379,167
-	-	-	502,933
-	-	-	93,415
-	-	-	520,555
-	-	-	256,911
75,000	1,400,000	-	1,529,789
1,138,159	302,234	-	2,186,808
2,851	10,698	-	14,768
-	-	-	89,338
1,216,010	1,712,932	-	5,194,517
(118,071)	(255,835)	-	(815,350)
180,228	211,821	-	507,105
-	-	-	420,302
-	-	-	(35,000)
180,228	211,821	-	892,407
62,157	(44,014)	-	77,057
12,919	142,924	-	224,521
\$ 75,076	\$ 98,910	\$ -	\$ 301,578

Single Audit

HARPER CREEK COMMUNITY SCHOOLS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass- Through Grantor's Number	Award Amount	Accrued (Deferred) Revenue at Beginning of Year	Current Year Receipts	Current Year Expenditures	Accrued (Deferred) Revenue at End of Year
U.S. Department of Agriculture							
Direct Program - Commodities:							
Entitlement	10.550	13070	\$ 55,611	\$ -	\$ 55,611	\$ 55,611	\$ -
Bonus	10.550	13070	15,105	-	15,105	15,105	-
				-	70,716	70,716	-
Passed-through Michigan Department of Education:							
School Breakfast	10.553	081970	54,102	-	54,102	54,102	-
National School Lunch							
Section 4 - All lunches	10.555	081950	55,486	-	55,486	55,486	-
Section 11 - Free and reduced	10.555	081960	196,124	-	196,124	196,124	-
				-	251,610	251,610	-
Total U.S. Department of Agriculture				-	376,428	376,428	-
U.S. Department of Education							
Passed-through Michigan Department of Education:							
Title I Part A Grants							
Regular 2007-2008	84.010	081530-0708	369,279	-	360,743	353,284	(7,459)
				-	360,743	353,284	(7,459)
Service Provider Self Review	84.027	080440-0708	4,500	-	2,340	2,340	-
Title V Part A							
LEA Allocation	84.298	080250-0708	522	-	522	522	-
Title II Part D							
Technology Literacy	84.318	074290-0607	3,448	-	3,448	3,448	-
Technology Literacy	84.318	084290-0708	3,471	-	3,471	3,471	-
				-	6,919	6,919	-
Title II Part A Regular							
Improving Teacher Quality	84.367	080520-0708	107,987	-	107,987	107,987	-
				-	107,987	107,987	-
Passed-through Calhoun Intermediate School District:							
Safe and Drug Free Schools and Communities		72860-					
Drug Free Formula	84.186	DRUG-0708	7,784	-	7,784	7,784	-
Total U.S. Department of Education				-	486,295	478,836	(7,459)
Total Expenditures of Federal Awards				\$ -	\$ 862,723	\$ 855,264	\$ (7,459)

1. The significant accounting policies used in preparing this schedule are identified in Note I of the financial Statements.
2. Expenditures in this schedule are in agreement or reconcile with the amounts reported in the financial statements.
3. The amounts reported on the R7120 (Grants Section Auditors Report) reconcile with this schedule.
4. The amounts reported on the Recipient Entitlement Balance Report, or PAL Report, agree with this schedule for USDA donated food commodities.
5. Expenditures include spoilage or pilferage.



REHMANN ROBSON

Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

October 30, 2008

Board of Education
Harper Creek Community Schools
Battle Creek, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **HARPER CREEK COMMUNITY SCHOOLS** as of and for the year ended June 30, 2008, which collectively comprise Harper Creek Community Schools' basic financial statements, and have issued our report thereon dated October 30, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Harper Creek Community Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Harper Creek Community Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Harper Creek Community Schools' internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Harper Creek Community Schools' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Harper Creek Community Schools' financial statements that is more than inconsequential will not be prevented or detected by Harper Creek Community Schools' internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Harper Creek Community Schools' internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. Our report did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Harper Creek Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

However, we noted other matters involving the internal control over compliance, financial reporting and/or operating efficiency that we have reported to management of Harper Creek Community Schools in a separate letter dated October 30, 2008.

This report is intended solely for the information and use of the audit committee, management, the Board of Education, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

October 30, 2008

Board of Education
Harper Creek Community Schools
Battle Creek, Michigan

Compliance

We have audited the compliance of **HARPER CREEK COMMUNITY SCHOOLS** with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Harper Creek Community Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Harper Creek Community Schools' management. Our responsibility is to express an opinion on Harper Creek Community Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Harper Creek Community Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Harper Creek Community Schools' compliance with those requirements.

In our opinion, Harper Creek Community Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Harper Creek Community Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Harper Creek Community Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Harper Creek Community Schools' internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the audit committee, management, the Board of Education, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

HARPER CREEK COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? yes X no

Significant deficiency(ies) identified
not considered to be material weaknesses? yes X none reported

Noncompliance material to financial statements
noted? yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? yes X no

Significant deficiency(ies) identified
not considered to be material weaknesses? yes X none reported

Type of auditors' report issued on compliance
for major programs: Unqualified

Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section 510(a)? yes X no

HARPER CREEK COMMUNITY SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Concluded)

FOR THE YEAR ENDED JUNE 30, 2008

SECTION I - SUMMARY OF AUDITORS' RESULTS (Concluded)

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I, Part A
84.367	Title II, Part A

Dollar threshold used to distinguish
between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

_____ yes X no

SECTION II – FINANCIAL STATEMENT FINDINGS

None

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

SECTION IV – PRIOR YEAR FINDINGS

2007-1: Adjustments of Year-End Trial Balance

The District has implemented procedures to ensure all transactions are properly recorded at year end.

2007-2: Adequate Documentation of Payroll Costs and Employee Qualifications

The District has implemented procedures to ensure there is proper documentation for all 100% funded and co-funded employees, and has maintained proper documentation of teachers highly qualified status.

* * * * *



REHMANN ROBSON

Certified Public Accountants

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**COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE
UNDER SAS NO. 114**

October 30, 2008

To the Board of Education of the
Harper Creek Community Schools
Battle Creek, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the *Harper Creek Community Schools* (the "District") for the year ended June 30, 2008, and have issued our report thereon dated October 30, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter dated July 10, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about District's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on District's compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing communicated to you during our audit process.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 30, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of Harper Creek Community Schools and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, appearing to read "Lehmann Lohman". The signature is written in a cursive, flowing style with a large initial 'L'.

Harper Creek Community Schools

Comments and Recommendations

For the Year Ended June 30, 2008

In planning and performing our audit of the financial statements of Harper Creek Community Schools as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Other Matters

Athletic Gate Receipts

The District does not have procedures to reconcile the number of tickets sold at athletic events to the amount of cash collected for those events. We recommend the District implement procedures to reconcile the amounts collected and to maintain the accounting for tickets issued on a reconciliation form to be reviewed by an individual other than the preparer of the reconciliation form. A copy of the reconciliation form should be forwarded to the central business office, in order to comply with a previous request from the central business office.

Harper Creek Community Schools

Comments and Recommendations (Concluded)

For the Year Ended June 30, 2008

Security

The District does not currently have a policy which requires timely changes of computer passwords. To strengthen data security, we recommend that the District require password changes at a minimum of every 6 months.

Bank Deposits

Harper Creek Community School, similar to other school districts, has its excess cash deposited in one institution. At June 30, 2008, only \$100,000 of the total bank deposits of approximately \$1,697,000 at this one financial institution was insured by the F.D.I.C. Because of the financial events of recent weeks, the District should continually monitor the financial stability of this financial institution, and any other institution in where the deposits exceed the F.D.I.C. limit. (Note: Subsequent to June 30, 2008, F.D.I.C. coverage has been increased to \$250,000 per bank).

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FORM **SF-SAC**
(8-6-2008)U.S. DEPT. OF COMM.— Econ. and Stat. Admin.— U.S. CENSUS BUREAU
ACTING AS COLLECTING AGENT FOR
OFFICE OF MANAGEMENT AND BUDGET**Data Collection Form for Reporting on
AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS
for Fiscal Year Ending Dates in 2008, 2009, or 2010**

▶ Complete this form, as required by OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations."

PART 1**GENERAL INFORMATION (To be completed by auditee, except for Items 6, 7, and 8)**

1. Fiscal period ending date for this submission		2. Type of Circular A-133 audit	3. Audit period covered
Month 06	Day 30	Year 2008	
		1 <input checked="" type="checkbox"/> Single audit 2 <input type="checkbox"/> Program-specific audit	1 <input checked="" type="checkbox"/> Annual 3 <input type="checkbox"/> Other — <input type="text"/> Months 2 <input type="checkbox"/> Biennial

4. Auditee Identification Numbers

a. Primary Employer Identification Number (EIN)

3	8	—	6	0	0	7	6	2	0
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d. Data Universal Numbering System (DUNS) Number

0	8	—	5	8	9	—	8	6	1	7
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b. Are multiple EINs covered in this report? 1 ☐ Yes 2 ☒ No

e. Are multiple DUNS covered in this report? 1 ☐ Yes 2 ☐ No

c. If Part I, Item 4b = "Yes," complete Part I, Item 4c on the continuation sheet on Page 4.

f. If Part I, Item 4e = "Yes," complete Part I, Item 4f on the continuation sheet on Page 4.

5. AUDITEE INFORMATION

a. Auditee name
HARPER CREEK COMMUNITY SCHOOLS

b. Auditee address (Number and street)
7454 B. DRIVE N
City
BATTLE CREEK
State
MI ZIP + 4 Code
4 9 0 1 4 —

c. Auditee contact
Name
CAROL DAVIS
Title
BUSINESS MANAGER

d. Auditee contact telephone
(269) 441 — 6550

e. Auditee contact FAX
(269) 962 — 6034

f. Auditee contact E-mail
DAVISC@HARPERCREEK.NET

g. AUDITEE CERTIFICATION STATEMENT — This is to certify that, to the best of my knowledge and belief, the auditee has: (1) engaged an auditor to perform an audit in accordance with the provisions of OMB Circular A-133 for the period described in Part I, Items 1 and 3; (2) the auditor has completed such audit and presented a signed audit report which states that the audit was conducted in accordance with the provisions of the Circular; and, (3) the information included in **Parts I, II, and III** of this data collection form is accurate and complete. I declare that the foregoing is true and correct.

Auditee certification	Date
ELECTRONICALLY CERTIFIED	11/17/2008
Name of certifying official	
CAROL DAVIS	
Title of certifying official	
BUSINESS MANAGER	

**6. PRIMARY AUDITOR INFORMATION
(To be completed by auditor)**

a. Primary auditor name
REHMANN ROBSON CPA'S

b. Primary auditor address (Number and street)
675 ROBINSON RD
City
JACKSON
State
MI ZIP + 4 Code
4 9 2 0 3 —

c. Primary auditor contact
Name
DAVID M. FISHER
Title
PRINCIPAL

d. Primary auditor contact telephone
(517) 787 — 6503

e. Primary auditor contact FAX
(517) 788 — 8111

f. Primary auditor contact E-mail
DAVE.FISHER@REHMANN.COM

g. AUDITOR STATEMENT — The data elements and information included in this form are limited to those prescribed by OMB Circular A-133. The information included in Parts II and III of the form, except for Part III, Items 7, 8, and 9a-9f, was transferred from the auditor's report(s) for the period described in Part I, Items 1 and 3, and **is not a substitute** for such reports. The auditor has not performed any auditing procedures since the date of the auditor's report(s). A copy of the reporting package required by OMB Circular A-133, which includes the complete auditor's report(s), is available in its entirety from the auditee at the address provided in Part I of this form. As required by OMB Circular A-133, the information in **Parts II and III** of this form was entered in this form by the auditor based on information included in the reporting package. The auditor has not performed any additional auditing procedures in connection with the completion of this form.

7a. Add Secondary auditor information? (Optional)1 ☐ Yes 2 ☒ No

b. If "Yes," complete Part I, Item 8 on the continuation sheet on page 5.

Auditor certification	Date
ELECTRONICALLY CERTIFIED	11/15/2008

PART II FINANCIAL STATEMENTS (To be completed by auditor)**1. Type of audit report**

Mark either: 1 ☒ Unqualified opinion **OR**
any combination of: 2 ☐ Qualified opinion 3 ☐ Adverse opinion 4 ☐ Disclaimer of opinion

2. Is a "going concern" explanatory paragraph included in the audit report?1 ☐ Yes 2 ☒ No**3. Is a significant deficiency disclosed?**1 ☐ Yes 2 ☒ No – SKIP to Item 5**4. Is any significant deficiency reported as a material weakness?**1 ☐ Yes 2 ☐ No**5. Is a material noncompliance disclosed?**1 ☐ Yes 2 ☒ No**PART III FEDERAL PROGRAMS (To be completed by auditor)****1. Does the auditor's report include a statement that the auditee's financial statements include departments, agencies, or other organizational units expending \$500,000 or more in Federal awards that have separate A-133 audits which are not included in this audit? (AICPA Audit Guide, Chapter 12)**1 ☐ Yes 2 ☒ No**2. What is the dollar threshold to distinguish Type A and Type B programs? (OMB Circular A-133 § .520(b))**

\$ 300,000

3. Did the auditee qualify as a low-risk auditee? (§ .530)1 ☐ Yes 2 ☒ No**4. Is a significant deficiency disclosed for any major program? (§ .510(a)(1))**1 ☐ Yes 2 ☒ No –SKIP to Item 6**5. Is any significant deficiency reported for any major program as a material weakness? (§ .510(a)(1))**1 ☐ Yes 2 ☐ No**6. Are any known questioned costs reported? (§ .510(a)(3) or (4))**1 ☐ Yes 2 ☒ No**7. Were Prior Audit Findings related to direct funding shown in the Summary Schedule of Prior Audit Findings? (§ .315(b))**1 ☐ Yes 2 ☒ No**8. Indicate which Federal agency(ies) have current year audit findings related to direct funding or prior audit findings shown in the Summary Schedule of Prior Audit Findings related to direct funding. (Mark (X) all that apply or None)**98 ☐ U.S. Agency for International Development10 ☐ Agriculture23 ☐ Appalachian Regional Commission11 ☐ Commerce94 ☐ Corporation for National and Community Service12 ☐ Defense84 ☐ Education81 ☐ Energy66 ☐ Environmental Protection Agency39 ☐ General Services Administration93 ☐ Health and Human Services97 ☐ Homeland Security14 ☐ Housing and Urban Development03 ☐ Institute of Museum and Library Services15 ☐ Interior16 ☐ Justice17 ☐ Labor09 ☐ Legal Services Corporation43 ☐ National Aeronautics and Space Administration89 ☐ National Archives and Records Administration05 ☐ National Endowment for the Arts06 ☐ National Endowment for the Humanities47 ☐ National Science Foundation07 ☐ Office of National Drug Control Policy59 ☐ Small Business Administration96 ☐ Social Security Administration19 ☐ U.S. Department of State20 ☐ Transportation21 ☐ Treasury64 ☐ Veterans Affairs00 ☒ None☐ Other – Specify:

PART III FEDERAL PROGRAMS – Continued

9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR				10. AUDIT FINDINGS				
Federal Agency Prefix ¹	CFDA Number	Research and development	Name of Federal program	Amount expended	Direct award	Major program	Type(s) of compliance requirement(s) ⁴	Audit finding reference number(s) ⁵
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(a)	(b)
1 0	.550	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	COMMODITIES	\$ 70,716 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
1 0	.553	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	NATIONAL SCHOOL BREAKFAST PROGRAM	\$ 54,102 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
1 0	.555	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	NATIONAL SCHOOL LUNCH PROGRAM	\$ 251,610 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
8 4	.010	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	TITLE I, PART A	\$ 353,284 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
8 4	.186	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SAFE AND DRUG FREE SCHOOLS	\$ 7,784 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
8 4	.298	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	TITLE V, PART A	\$ 522 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
8 4	.318	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	TITLE II, PART D	\$ 6,919 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
8 4	.367	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	TITLE II, PART A	\$ 107,987 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	O	N/A
8 4	.027	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SERVICE PROVIDER SELF REVIEW	\$ 2,340 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
TOTAL FEDERAL AWARDS EXPENDED				\$ 855,264 .00				

¹ See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.² Or other identifying number when the Catalog of Federal Domestic Assistance (CFDA) number is not available. (See Instructions)³ If major program is marked "Yes," enter only one letter (U = Unqualified opinion, Q = Qualified opinion, A = Adverse opinion, D = Disclaimer of opinion) corresponding to the type of audit report in the adjacent box. If major program is marked "No," leave the type of audit report box blank.⁴ Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, significant deficiency (including material weaknesses), questioned costs, fraud, and other items reported under § 510(a)) reported for each Federal program.

⁵ N/A for NONE
 A. Activities allowed or unallowed
 B. Allowable costs/cost principles
 C. Cash management
 D. Davis – Bacon Act
 E. Eligibility
 F. Equipment and real property management
 G. Matching, level of effort, earmarking
 H. Period of availability of Federal funds
 I. Procurement and suspension and debarment
 J. Program income
 K. Real property acquisition and relocation assistance
 L. Reporting
 M. Subrecipient monitoring
 N. Special tests and provisions
 O. None
 P. Other

PART I Item 5 Continuation Sheet

c. List the multiple Employer Identification Numbers (EINs) covered in this report.

f. List the multiple DUNS covered in the report.

1	N / A	21	41							1	N / A	21							
2		22	42							2		22							
3		23	43							3		23							
4		24	44							4		24							
5		25	45							5		25							
6		26	46							6		26							
7		27	47							7		27							
8		28	48							8		28							
9		29	49							9		29							
10		30	50							10		30							
11		31	51							11		31							
12		32	52							12		32							
13		33	53							13		33							
14		34	54							14		34							
15		35	55							15		35							
16		36	56							16		36							
17		37	57							17		37							
18		38	58							18		38							
19		39	59							19		39							
20		40	60							20		40							

PART I GENERAL INFORMATION - Continued

8. Part I, Item 8, Secondary Auditor's Contact Information. (List the Secondary Auditor's Contact information)

1. a. Secondary Auditor name N / A		2. a. Secondary Auditor name		3. a. Secondary Auditor name	
b. Secondary Auditor address (Number and street)		b. Secondary Auditor address (Number and street)		b. Secondary Auditor address (Number and street)	
City		City		City	
State ZIP + 4 Code		State ZIP + 4 Code		State ZIP + 4 Code	
c. Secondary Auditor contact Name Title		c. Secondary Auditor contact Name Title		c. Secondary Auditor contact Name Title	
d. Secondary Auditor contact telephone		d. Secondary Auditor contact telephone		d. Secondary Auditor contact telephone	
e. Secondary Auditor contact FAX		e. Secondary Auditor contact FAX		e. Secondary Auditor contact FAX	
f. Secondary Auditor contact E-mail		f. Secondary Auditor contact E-mail		f. Secondary Auditor contact E-mail	
4. a. Secondary Auditor name		5. a. Secondary Auditor name		6. a. Secondary Auditor name	
b. Secondary Auditor address (Number and street)		b. Secondary Auditor address (Number and street)		b. Secondary Auditor address (Number and street)	
City		City		City	
State ZIP + 4 Code		State ZIP + 4 Code		State ZIP + 4 Code	
c. Secondary Auditor contact Name		c. Secondary Auditor contact Name		c. Secondary Auditor contact Name	
Title		Title		Title	
d. Secondary Auditor contact telephone		d. Secondary Auditor contact telephone		d. Secondary Auditor contact telephone	
e. Secondary Auditor contact FAX		e. Secondary Auditor contact FAX		e. Secondary Auditor contact FAX	
f. Secondary Auditor contact E-mail		f. Secondary Auditor contact E-mail		f. Secondary Auditor contact E-mail	